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Ukraine

Poultry and Products

Tariff and Non-tariff Barriers to Trade

2003

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Report Highlights:

The lifting of the U.S. poultry meat import ban has reopened the Ukrainian market for U.S. producers. However, poultry not destined for further processing is subject to astonishingly high import taxes. Local importers are now searching for legislative loopholes in order to avoid these prohibitively high tariffs. Unclear laws and customs procedures significantly increase market risks for Ukraine's poultry trade.

Includes PSD Changes: No
Includes Trade Matrix: No
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Kiev [UP1]
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Executive Summary

The recent lifting of the U.S. poultry meat import ban allows U.S. producers to renew poultry meat shipments to Ukraine. Unfortunately, Ukrainian import duties on poultry meat remain prohibitively high. This discourages legal direct importing and forces importers to look for ways to avoid import taxes. At present, the only legal method to circumvent the high tariffs is to import via companies that are registered in the Free Economic Zones (FEZs). Special investment regimes established within the FEZs allow duty-free imports for goods destined for further processing. In many cases, imported poultry does not qualify as a "sufficiently processed good." This results in reduced-duty poultry imports being subject to the non-transparent whimsy of local and central authorities.

Import Regime

Prior to 1996, poultry meat imports into Ukraine were profitable. This was due, in part, to low import duties. Chilled parts, chilled leg quarters and frozen leg quarters were assigned an import duty of €0.30 per kilogram. All other poultry meat was assigned an import duty of 30% of value or €1.50 per kilogram -- whichever was higher. In July 1996, the GOU increased the import duty to €0.70 for chilled parts, chilled leg quarters and frozen leg quarters. Not surprisingly, traders found ways to circumvent paying this higher import duty on poultry.

Between 1996 and 2002 the bulk of poultry meat imports into Ukraine have been conducted through privileged importers, or arrived illegally. In 2002, the Government of Ukraine (GOU) took steps to remove the preferential import duty payments and succeeded in obtaining a corresponding ruling from the Constitutional Court of Ukraine.

Unable to pay the new higher duties, poultry traders retreated to another legislative loophole. One way they found to circumvent paying import duty was by working through the FEZs where raw materials for further processing could enter duty free. It is believed that an overwhelming share of frozen poultry products entering the FEZs simply transit, with little or no additional processing.

For whatever reason, local authorities and the GOU have chosen not to interfere with this flagrant violation of poultry import regulations. However, there is always the threat that poultry imports through the FEZs could be completely or partially stopped.

The commonly accepted reason for the GOU's failure to intervene with FEZ poultry operations is insufficient domestic poultry production within Ukraine. Annual domestic production of 170,000 metric tons of poultry meat coupled with 42,000 tons of legally imported poultry meat does not satisfy domestic demand.

A considerable quantity of poultry is smuggled into Ukraine through the Republic of Moldova (Transdnister Republic) and Poland. Some market analysts believe that the quantity of poultry smuggled into Ukraine is comparable to or even exceeds the legal trade.

Actual Ukrainian Import Duties

What level of import duty would Ukrainian poultry importers actually pay if they operated within the letter of the law and didn't take advantage of dubious tax evasion schemes? First, let's look at the current import duties as provided in Table 1 below.

Table 1. Ukrainian import duties for poultry products

Ukrainian HS Code	Code Description	Official Ad valorem Import Duty Rate	Fixed minimum rate, EUR per 1 kg.
0207 11	All poultry meat, except for HS codes listed below	30%	1,5
0207 13 20	Chicken cuts, not deboned, halves and quarters, fresh or chilled	-	0,7
0207 13 60	Chicken cuts, not deboned, legs and leg parts, fresh or chilled	-	0,7
0207 14 60	Chicken cuts, not deboned, legs and leg parts, frozen	-	0,7

Data Source: The Law of Ukraine "On Customs Tariff" as of December 10, 2003

Ukraine maintains both an *ad valorem* and a fixed minimum per kilogram duty rate for majority of poultry products. For certain less-expensive poultry products, the official *ad valorem* import duty as a percentage of value is very small. Thus, the official *ad valorem* duty would never be applied.

Table 2 below demonstrates that in most cases the current duty rate significantly exceeds 100% of the poultry products' CIF value. This would certainly be a significant barrier to trade should Ukrainian import legislation be effectively enforced.

The *ad valorem* import duty equivalent ranges between 84% and an astonishing 547%. It is not surprising that legal imports are rarely possible.

Note that the highest duties are levied against the least valuable products: backs, necks and wing tips. The cheaper the poultry product, the higher the *ad valorem* tariff equivalent. Charged in euros, these duties have been slowly rising over the last three years as the U.S. dollar has lost value against the euro.

The future of legal poultry trade with Ukraine is unclear. The country is not yet a member of the WTO and it is not known to what extent poultry import duties will be reduced upon accession. Neither are the terms for accession clear.

Table 2. Average Ad Valorem Equivalent Rates for 2001-2003 (9-month period)

Ukrainian HS Codes	Description	Imports, MT	Value, US\$ 1000	Average, CIF Price, \$/kg	Ad valorem Equivalent Rate
0207000000	Poultry Meat and Edible Offal (Total), including:	125274	54403	0,43	296%
0207110000	- Chickens, Not Cut in Pieces, Fresh or Chilled	10	8	0,80	225%
0207120000	- Chickens, Not Cut in Pieces, Frozen	3516	2355	0,67	237%
0207130000	- Chicken Cuts and Edible Meat Offal, Fresh or Chilled, including:	861	477	0,55	325%
0207132000	-- Chicken Cuts, Not Deboned, Halves and Quarters, Fresh or Chilled	10	9	0,90	93%
0207134000	-- Chicken Cuts, Backs, Necks, Backs with Necks, Wing Tips, Fresh or Chilled	273	90	0,33	547%
0207136000	-- Chicken Cuts, Legs and Leg Cuts, Fresh or Chilled	424	347	0,82	103%
0207140000	- Chicken Cuts and Edible Meat Offal, Frozen, including:	102203	44798	0,44	287%
0207141000	-- Chicken Cuts Separated from Bones, Frozen	23561	11302	0,48	344%
0207142000	-- Chicken Cuts, Halves and Quarters, Not Separated From Bones, Frozen	48019	21884	0,46	257%
0207143000	-- Chicken Cuts, Wings, with or without Tips, Frozen	429	226	0,53	341%
0207144000	-- Chicken Cuts, Backs, Necks, Backs with Necks, Wing Tips, Frozen	13906	4742	0,34	432%
0207145000	-- Chicken Cuts, Breast, Frozen	124	267	2,15	84%
0207146000	-- Chicken Cuts, Legs and Leg Cuts, Frozen	1176	487	0,41	86%
0207147000	-- Chicken Cuts, Other	14314	5690	0,40	432%
0207260000	Turkey Cuts and Edible Meat Offal, Fresh or Chilled	422	332	0,79	228%
0207270000	Turkey Cuts and Edible Meat Offal, Frozen	18676	6727	0,36	417%
0207330000	Ducks, Geese, Guineas, Not Cut in Pieces, Frozen	121	94	0,77	232%

Source: State Statistics Committee of Ukraine and FAS/Kiev's calculations.
Exchange rates are as of December 2003.

Example of Import Duty and VAT Calculation

The following calculations demonstrate that import duty and VAT payments on a shipment of frozen chicken leg quarters valued at US\$ 810,000 CIF Odessa exceed US\$ 1 million, based on the fixed tariff rate of €0.7 found in Table 1 above.

1. Assume that an unprivileged importer tries to import 1,000 metric tons of frozen chicken leg quarters, valued at US\$ 810,000 CIF Odessa. (Exchange rate €1 = US\$ 1.2).
2. The import duty based on the fixed tariff rate is:

$$1,000 \text{ MT} \times 1,000 \text{ kg/MT} \times €0.7 (\$ 0.84/\text{kg}) = €700,000 (\$840,000)$$

3. The VAT payment based on a flat 20% is:

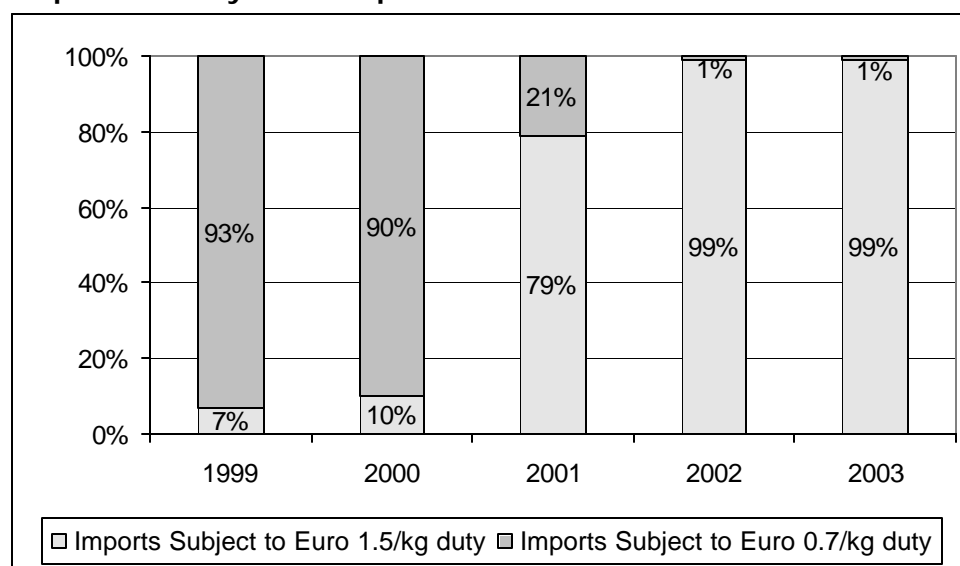
$$(\$810,000 + \$840,000) \times 20 \text{ percent} = \$1,980,000$$

4. The total import duty and VAT payment due prior to customs clearance = US\$1,170,000

Structure of Trade

Since 1999, Ukrainian poultry meat imports have shifted from the majority of imports being in the €0.70 per kilogram category (mainly frozen chicken leg quarters) to the current situation where almost all imports are in the €1.50 per kilogram category (see Graph 1).

Graph 1. Poultry Meat Import Structure



Over the past decade, the United States has been the major supplier of poultry meat to Ukraine shipping mainly frozen chicken cuts (see Tables 3 and 4 below). As the structure of poultry meat imports shifts away from frozen leg quarters, the threat of high import duties increases as the share of poultry imports subject to the higher €1.5 duty rises-- for instance, frozen chicken halves and breast quarters -- due to shifting consumer preferences.

Table 3. Ukrainian Poultry Meat Imports in 1996-2002

Year	Total Imports, MT	Total value (CIF Ukraine) US\$ 1, 000	Imports from the U.S., MT	Imports from the U.S., CIF Value US\$ 1, 000	U.S. Share in Volume, %	U.S. Share in Value, %	Average CIF Price US\$/1MT
2002	71,760	\$ 29,690	19,912	\$ 7,053	28%	24%	354
2001	67,332	\$ 62,826	54,608	\$53,648	81%	85%	933
2000	25,978	\$ 17,537	22,331	\$15,100	86%	86%	675
1999	88,716	\$ 87,270	77,497	\$76,009	87%	87%	984
1998	51,469	\$ 55,689	37,166	\$40,222	72%	72%	1,082
1997	56,920	\$ 76,248	48,619	\$66,694	85%	87%	1,340
1996	97,462	\$149,119	81,155	\$128,240	83%	86%	1,530

Data Source: State Statistics Committee of Ukraine

Table 4. Poultry Meat Import Trade Matrix (1996-2002)

Country of Origin	1996	1997	1998	1999	2000	2001	2002
U.S.	81,155	48,619	37,165	77,497	22,331	54,608	20
Belgium	740	674	519	180	458	3,635	22,904
Hungary	1,715	176	114	1,367	913	2,019	3,388
Germany	20	1	160	591	440	1,750	6,536
Netherlands	12,620	6,247	11,935	6,422	979	1,698	11,696
France	0	13	123	706	150	763	1,043
Poland	149	219	58	145	341	232	2,859
Slovakia	0	0	0	425	100	0	0
Cyprus	90	0	0	1,161	0	0	0
Estonia	0	440	363	70	0	0	0
Total for others	973	531	1,031	152	266	2,627	23,294
Grand Total, MT	97,462	56,920	51,469	88,716	25,978	67,332	71,741
Grand Total, US \$ 1,000	\$149,119	\$76,248	\$55,689	\$87,270	\$17,537	\$62,826	\$29,690

Data Source: State Statistics Committee of Ukraine